SURREBUTTAL TESTIMONY AND EXHIBIT OF

RICHARD BAUDINO

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NOS. 2017-207, 305, 370-E

IN RE: JOINT APPLICATION AND PETITION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY AND DOMINION ENERGY, INCORPORATED FOR REVIEW AND APPROVAL OF A PROPOSED BUSINESS COMBINATION BETWEEN SCANA CORPORATION AND DOMINION ENERGY, INCORPORATED, AS MAY BE REQUIRED, AND FOR A PRUDENCY DETERMINATION REGARDING THE ABANDONMENT OF THE V.C. SUMMER UNITS 2 & 3 PROJECT AND ASSOCIATED CUSTOMER BENEFITS AND COST RECOVERY PLANS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Richard A. Baudino, a Consultant with J. Kennedy and Associates, Inc., an economic consulting firm specializing in utility ratemaking and planning issues. My business address is 570 Colonial Park Drive, Suite 305, Roswell, Georgia.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS IN THIS PROCEEDING?

A. Yes. I filed Direct Testimony and 13 exhibits with the Public Service Commission of South Carolina ("Commission") on September 24, 2018.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond to the Rebuttal Testimonies filed by Mr. Robert Hevert and Ms. Ellen Lapson, witnesses for South Carolina Electric and Gas Company ("SCE&G" or "Company"). In so doing, I will also address recent conditions in the financial markets and their effect, if any, on my recommended 9.10% investor required return on equity ("ROE") for SCE&G's allowable new nuclear development ("NND") costs. I will also respond to the Rebuttal Testimonies of Dominion Energy witness Robert Blue and SCE&G witness John Raftery regarding service quality conditions associated with the proposed business combination.

RESPONSE TO SCE&G WITNESS HEVERT'S REBUTTAL TESTIMONY

Q. DID MR. HEVERT PROVIDE AN UPDATE TO HIS ROE ANALYSES THAT HE PRESENTED IN HIS DIRECT TESTIMONY?

A. Yes. Mr. Hevert presented updates to his Constant Growth Discounted Cash Flow ("DCF"), Multi-Stage DCF, Capital Asset Pricing Model ("CAPM"), Empirical CAPM ("ECAPM"), and Risk Premium analyses. He presented these results in Rebuttal Exhibit No. ___(RBH-1) through Rebuttal Exhibit No.___(RBH-6).

Q. DID MR. HEVERT PROVIDE A SUMMARY TABLE OF HIS UPDATED RESULTS LIKE HIS TABLES 1A AND 1B IN HIS DIRECT TESTIMONY?

A. No, he did not. I created Surrebuttal Table 1 to summarize Mr. Hevert's updated results below. For ease of presentation, I have only included the mean and median results of Mr. Hevert's DCF studies and did not include high and low ROE estimates.

Surrebuttal Table 1

Hevert Updated ROE Results

Constant Growth DCF:	
Mean DCF Results	9.01% - 9.04%
Median DCF Results	8.89% - 9.05%
Multi-stage DCF:	
Average EPS Growth Rate in First Stage	9.08% - 9.21%
Multi-Stage DCF - Terminal P/E Ratio 18.65:	
Average EPS Growth Rate in First Stage	8.82% - 9.25%
CAPM:	
Bloomberg Beta Mean Results	8.89% - 9.54%
Value Line Beta Mean Results	11.11% - 12.02%
ECAPM:	
Bloomberg Beta Mean Results	10.53% - 11.37%
Value Line Beta Mean Results	12.19% - 13.23%
Risk Premium ROE	9.97% - 10.27%

What stands out in Surrebuttal Table 1 is how much lower Mr. Hevert's CAPM results are using the Bloomberg betas for the proxy group. In his Direct Testimony, the mean Bloomberg beta CAPM ROE results ranged from 10.32% - 10.52%. In his update, the Bloomberg beta CAPM results now range from 8.89% - 9.54%. This change was due mostly to lower betas for the proxy group. Mr. Hevert's updated Bloomberg CAPM results are much closer to my 9.1% ROE recommendation. The set of CAPM results from Mr. Hevert's rebuttal testimony no longer supports Mr. Hevert's low end ROE range of 10.25%, much less his 10.75% ROE recommendation.

In my Direct Testimony, I noted that Mr. Hevert seemed to rely mostly on the CAPM results for his recommendation, while completely disregarding the DCF results. Now in his update, the Bloomberg CAPM results not only fail to support the low end of his recommended range, they are more consistent with the DCF results and with my 9.10% ROE recommendation.

Q. ON PAGE 4 OF HIS REBUTTAL TESTIMONY, MR. HEVERT PRESENTED CHART 1, WHICH SHOWS A COMPARISON OF COMMISSION-ALLOWED RETURNS AND HIS CALCULATION OF DCF RESULTS FOR HIS PROXY GROUP. PLEASE COMMENT ON THIS ANALYSIS.

A. On page 4 of his Rebuttal Testimony, Mr. Hevert criticized the DCF as being inconsistent with decisions reached by regulatory commissions over the last several years. Mr. Hevert attempted to make this point using data he presented in Chart 1. However, reviewing the data in Chart 1 shows that the DCF is much closer to authorized ROEs than Mr. Hevert's recommended 10.75% ROE. In fact, Mr. Hevert's 10.75% ROE is, quite literally, off the chart given that the top ROE on Chart 1 is 10.50%. The most recent authorized ROE shown on Mr. Hevert's Chart 1 is slightly above 9.50%, which is much closer to my recommended 9.10% ROE than Mr. Hevert's 10.75% ROE.

To provide a clearer picture of recent authorized ROEs for the Commission, I reviewed the data presented by Mr. Hevert in his Rebuttal Exhibit No.__(RBH-6). Surrebuttal Table 2 below presents the authorized ROEs presented by Mr. Hevert in this exhibit for 2018 as well as the average authorized ROE for the year and from August 2018.

Surrebuttal Table 2
2018 Allowed ROEs
Rebuttal Exhibit No. ___(RBH-6)

Date	Return on Equity (%)
1/18/18	9.70%
1/31/18	9.30%
2/2/18	9.98%
2/23/18	9.90%
3/12/18	9.25%
3/15/18	9.00%
3/29/18	10.00%
4/12/18	9.90%
4/13/18	9.73%
4/18/18	9.25%
4/18/18	10.00%
4/26/18	9.50%
5/30/18	9.95%
5/31/18	9.50%
6/14/18	8.80%
6/22/18	9.50%
6/22/18	9.90%
6/28/18	9.35%
6/29/18	9.50%
8/8/18	9.53%
8/21/18	9.70%
8/24/18	9.28%
9/5/18	9.10%
9/14/18	10.00%
9/20/18	9.80%
9/26/18	9.77%
9/26/18	10.00%
9/27/18	9.30%
10/4/18	9.85%
Average (2018 YTD)	9.60%
Avg. From August 2018	9.63%
Highest ROE Award	10.00%
Lowest ROE award	8.80%

This table shows quite clearly how far out of the mainstream Mr. Hevert's 10.75% ROE recommendation is. According to the data presented by Mr. Hevert, the highest ROE award in 2018 was 10%, while the lowest was 8.80%. Although my 9.10% is near the low end of this range, it is within the range. Mr. Hevert's recommended 10.75% significantly exceeds the upper end of the range (10%) of allowed returns in 2018.

Q. IN YOUR OPINION, IS MR. HEVERT'S REJECTION OF THE MEAN AND MEDIAN DCF RESULTS RESPONSIBLE FOR HIS EXCESSIVELY HIGH 10.75% ROE RECOMMENDATION?

A. Yes, most definitely. Surrebuttal Table 1 shows that the mean and median DCF results are more consistent with recent allowed returns than nearly all of Mr. Hevert's CAPM and ECAPM results, apart from the Bloomberg CAPM ROEs.

Q. WHAT IS YOUR CONCLUSION WITH RESPECT TO MR. HEVERT'S UPDATED ROE ANALYSES?

A. My conclusion is that Mr. Hevert's updated analyses do not support his excessive ROE recommendation of 10.75%. His mean and median DCF analyses and his Bloomberg CAPM analysis support a much <u>lower</u> investor required ROE and are more consistent with my recommended ROE of 9.10%. Mr. Hevert's ECAPM results continue to be extraordinarily high and should be rejected for the reasons I explained in my Direct Testimony. Even Mr. Hevert's Risk Premium results, which are based on his analysis of Commission-allowed returns, do not remotely support a 10.75% ROE for SCE&G or for any other investment grade regulated utility company.

Mr. Hevert's ROE recommendation of 10.75% should be rejected by the Commission.

Q. DID YOU CALCULATE THE ADDITIONAL REVENUES THAT WOULD HAVE TO BE COLLECTED FROM SOUTH CAROLINA RATEPAYERS UNDER THE

ORS OPTIMAL PLAN USING MR. HEVERT'S RECOMMENDED 10.75% ROE COMPARED TO YOUR RECOMMENDED 9.10% ROE?

A. Yes. At my request, ORS calculated the revenue requirement impact of a 1 basis point (0.01%) change in the ROE under the ORS Optimal Plan. Each basis point change in the ROE results in a change in the levelized Capital Cost Recovery ("CCR") Rider revenue requirement of approximately $38,000. The basis point difference between my recommended ROE of 9.10% and Mr. Hevert's 10.75% is 165 basis points, or 1.65%.

Mr. Hevert's recommended ROE of 10.75% would result in an additional yearly levelized CCR Rider revenue requirement increase to South Carolina ratepayers of approximately $6.3 million compared to my recommended ROE of 9.10%.

Q. SHOULD THE COMMISSION BASE ITS ALLOWED ROE IN THIS PROCEEDING ON THE DECISIONS OF OTHER REGULATORY COMMISSIONS?

A. No. Although allowed returns in other jurisdictions may provide general background for the Commission's deliberations in this case, I recommend that the Commission base its ROE determination for SCE&G's allowable NND costs on the information presented in this proceeding. The overview of other regulatory commissions clearly demonstrates that Mr. Hevert's ROE recommendation is out of step with current allowed ROEs, is inconsistent with market evidence presented in the DCF model, and is grossly overstated with respect to the CAPM and ECAPM results.

Q. REGARDING ALLOWED RETURNS, ARE YOU AWARE OF THE ROE RECENTLY ALLOWED BY THE VIRGINIA STATE CORPORATION COMMISSION ("SCC") FOR DOMINION ENERGY VIRGINIA?

A. Yes. According to Dominion Energy's 2017 10-K report, page 21, the Virginia SCC authorized an allowed ROE of 9.2% for rate adjustment clauses. Further, on page 135 of Dominion Energy's 10-K, Dominion noted that the Virginia SCC authorized a 9.2% ROE for Rider GV effective April 1, 2018. Rider GV is designed to collect costs associated with the Greenville County Power Station, which is a combined cycle electric generating facility.

I provide this additional information to the Commission in support of my recommendation to authorize a 9.10% ROE for the ORS recommended allowable NND costs in this proceeding. These NND costs would be collected through the ORS proposed Capital Cost Recovery ("CCR") rider. Although Dominion Energy Virginia's Rider GV and the ORS proposed CCR rider are not totally comparable, they both are designed to collect the costs of generating facilities. In SCE&G's case, however, the generation costs are the allowable NND costs associated with the cancelled Summer nuclear plant that will not provide any power to South Carolina ratepayers. The comparison to the 9.20% allowed ROE for Dominion Energy Virginia's Rate GV provides further support that my recommended 9.10% ROE for SCE&G's allowed NND costs is reasonable.

Q. BEGINNING ON PAGE 44 OF HIS REBUTTAL TESTIMONY, MR. HEVERT RESPONDS TO YOUR POSITION WITH RESPECT TO USING CURRENT INTEREST RATES AS OPPOSED TO FORECASTED INTEREST RATES. HAVE INTEREST RATES INCREASED SINCE YOU FILED YOUR DIRECT TESTIMONY?

A. Yes. Since the end of August 2018, both short-term and long-term interest rates have increased. On September 26, 2018, the Federal Reserve announced another increase in its benchmark short-term interest rate, the federal funds rate, to the target range of 2% - 2.25%. The month of October has also seen increases in the long-term 10-year and 30-year Treasury bond rate. As of October 23, 2018, the yield on the 30-year Treasury Bond was 3.37%, 33 basis points higher than the August yield of 3.04% I reported in Table 1 of my Direct Testimony. The average public utility bond yield stood at 4.58% as of the same date, up 25 basis points from the August yield of 4.33%.

Q. GIVEN THAT THE STOCKS OF REGULATED UTILITIES TEND TO BE SENSITIVE TO INTEREST RATE CHANGES, HAS THE RECENT RUN-UP IN INTEREST RATES NEGATIVELY AFFECTED THEIR PRICES?

A. No. In general utility stock prices have not been negatively affected by the recent uptick in long-term interest rates. In fact, the Dow Jones Utility Average ("DJUA") is higher as of the preparation of my Surrebuttal Testimony that it was at the end of August. As of August 31, 2018, the DJUA closed at 726.41. On October 23, the DJUA closed at 742.02. This represents an increase of 2.1% in the DJUA from the end of August. Obviously, the DJUA has not been harmed by this recent increase in the 30-year Treasury Bond yield, the recent increase in the federal funds rate by the Federal Reserve, or the uptick in utility bond yields.

Moreover, the dividend yield of my proxy group of regulated utilities did not significantly increase in October. ORS Surrebuttal Exhibit RAB-1 shows the proxy group dividend yields from March 2018 through October 19, 2018. Note that the proxy group dividend yield is the same for September and October 2018, 3.29%, and is still lower than the group dividend yield from March through May 2018.

Q. WHY, IN YOUR VIEW, HAVE UTILITY STOCKS NOT BEEN ADVERSELY AFFECTED BY THE RECENT INCREASE IN SHORT- AND LONG-TERM INTEREST RATES IN OCTOBER?

A. In my opinion, investors are turning to lower risk, regulated utility investments to protect against current market volatility despite higher interest rates. This view was supported in an October 10, 2018 article by Tom DiChristopher of CNBC, who opined:

> *"If there is one market force powerful enough to boost utility stocks in rising rate environment, it appears to be the rush to safety in dark times. The recent rally in utility stocks — the sector is up nearly 4 percent over the last three months — got knocked off track as the U.S. 10-year Treasury yield began to march higher. A rising 10-year yield typically draws investors out of utility stocks, often called "bond proxies" for their bond-like qualities, including steady dividends and stability.*
>
> *But despite the 10-year yield sitting near a seven-year high, the S&P 500 utility sector has rallied from its September lows and is now up 2.5 percent in October. Meanwhile, every other sector is in the red and the broader S&P 500 is down 4.4-percent month to date.*
>
> *Given the stock market slump this month, investors are prioritizing another benefit of utility names: their status as a relatively safe haven. "In a market like this, in a dramatic sell-off, the rotational effects will be higher than the interest rate effect," said Jay Hatfield, portfolio manager at Infrastructure Capital Management."*

I conclude from the current state of financial markets that investors appear to be rotating into safer, more predictable regulated utility stocks to protect themselves from current market volatility. In my view, this means that they are willing to accept lower total returns that are safer rather than risk losses in the broader stock market. I believe that this is further support for maintaining my recommended 9.10% ROE recommendation despite current increases in long- and short-term interest rates since I filed my Direct Testimony.

Q. AT PAGE 7 OF HIS REBUTTAL TESTIMONY, MR. HEVERT PROVIDED AN EXCERPT FROM DR. ROGER A. MORIN'S BOOK *NEW REGULATORY FINANCE*. ARE YOU FAMILIAR WITH THIS TEXT?

A. Yes, I am.

Q. PLEASE RESTATE THE FIRST SENTENCE OF THE EXCERPT MR. HEVERT PROVIDED FROM THIS TEXT.

A. Dr. Morin is quoted as stating, "Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the methodology and on the reasonableness of the proxies used to validate the theory."[1]

Q. IN YOUR OPINION, DID MR. HEVERT EXERCISE "CONSIDERABLE JUDGMENT ON THE REASONABLENESS OF THE ASSUMPTIONS" IN HIS DETERMINATION OF A RECOMMENDED ROE OF 10.75%?

A. Mr. Hevert certainly exercised considerable judgement, but his recommended ROE range as well as his recommended 10.75% ROE for SCE&G is unreasonable.

Mr. Hevert's DCF analysis, as provided in his Direct Testimony and the revised DCF analysis as provided in his Rebuttal Testimony, indicate ROE ranges that are much more in line with recently authorized ROEs than the range of 10.25% to 11.0% he ultimately recognized. In fact, Mr. Hevert's revised Constant Growth DCF analysis provided in Rebuttal Exhibit No. ___(RBH-1) indicates slightly lower low, mean, and high ROE estimates based on updated 30-day and 90-day average stock prices than initially cited in his Direct Testimony. Mr. Hevert's CAPM and ECAPM analyses indicate ROEs

[1] Rebuttal Testimony of Robert B. Hevert, page 7, citing Morin, R. A. (2006). *New Regulatory Finance*. Public Utility Reports, Inc., at 428.

that are far above these levels and thus substantially overstate the ROE appropriate for SCE&G given current financial and market conditions.

Q. ON PAGE 12 OF HIS REBUTTAL TESTIMONY, MR. HEVERT DISAGREES WITH YOUR USE OF PROJECTED DIVIDEND GROWTH FROM VALUE LINE IN YOUR DCF ANALYSES. PLEASE RESPOND TO MR. HEVERT'S POSITION ON THIS ASPECT OF YOUR ANALYSIS.

A. The bulk of academic literature support using earnings growth rates in the DCF model and I gave earnings growth a 75% weighting in my DCF analysis. However, since the Value Line Investment Survey presents forecasted dividend growth in its reports on regulated utility companies and, since dividends are a major source of income for investors in utility stocks, it is reasonable to include Value Line's dividend growth forecast in my DCF analysis. Further, the DCF results using forecasted dividend growth were 9.19% - 9.24% and are higher than several of my DCF estimates using forecasted earnings growth.

Q. BEGINNING ON PAGE 23 OF HIS REBUTTAL TESTIMONY, MR. HEVERT RESPONDED TO YOUR CRITICISM OF HIS 5.45% LONG-TERM GROWTH RATE FOR GROSS DOMESTIC PRODUCT ("GDP"). PLEASE RESPOND TO MR. HEVERT'S TESTIMONY ON THIS POINT.

A. My reading of Mr. Hevert's testimony suggests that he did not dispute that his own projection of 5.45% GDP growth was significantly greater than the Social Security Administration forecast or that of the Energy Information Administration. Further, other publicly available sources are also far lower than Mr. Hevert's GDP projection. For example, the most recent economic projections issued by the Federal Reserve Board on September 26, 2018, show a long-run growth in real GDP of 1.8% and an inflation projection of 2.0%. Adding these together results in a long-run nominal GDP growth rate of 3.8%. Likewise, the August 2018 update to the Congressional Budget Office's economic projections for calendar years 2018 through 2028 show a projected growth rate in nominal GDP of 3.9%. These publicly available sources of information are all significantly lower than Mr. Hevert's 5.45% GDP projection.

Q. ON PAGE 57 OF HIS REBUTTAL TESTIMONY, MR. HEVERT RESPONDED TO YOUR COMPARISON OF YOUR RECOMMENDED ROE OF 9.1% TO THE EARNED RETURNS OF THE OPERATING COMPANIES HE PRESENTED IN CHART 8 IN HIS DIRECT TESTIMONY. PLEASE RESPOND TO MR. HEVERT'S REBUTTAL TESTIMONY ON THIS POINT.

A. My comparison does not assume that the historical earned returns in Chart 8 of Mr. Hevert's Direct Testimony "should equal the investor-required Cost of Equity" as Mr. Hevert stated on page 57, line 10 of his rebuttal testimony. Mr. Hevert's statement is simply incorrect. My recommended ROE is based on current market evidence, not historical earned returns.

In my direct testimony at page 33, I observed that my recommended ROE of 9.1% is in line with the 9.17% earned return for companies in the proxy group in 2017. Further, I observed that my recommended ROE is close to the 5-year average of 9.54%. In contrast, Mr. Hevert's recommended ROE of 10.75% is roughly 160 and 120 basis points higher than each of these measures, respectively.

Q. BEGINNING ON PAGE 60 OF HIS REBUTTAL TESTIMONY, MR. HEVERT PRESENTED TABLE 6, WHICH INCLUDES VALUE LINE'S PROJECTED RETURN ON COMMON EQUITY FOR THE COMPANIES IN THE PROXY

GROUP. SHOULD THE COMMISSION USE THESE PROJECTED EARNED RETURNS ON COMMON EQUITY TO SET THE ALLOWED RETURN FOR SCE&G IN THIS PROCEEDING?

A. No. These are Value Line's projected earned returns for the proxy group 3 – 5 years from now. They do not represent required returns today as measured in the financial markets. I continue to recommend the Commission use the current market evidence presented in my DCF results for its authorized ROE for SCE&G in this proceeding.

<u>RESPONSE TO SCE&G WITNESS MS. LAPSON'S REBUTTAL TESTIMONY</u>

Q. ON PAGE 8 OF HER REBUTTAL TESTIMONY, MS. LAPSON DISAGREED WITH YOUR PROPOSAL THAT THE COMMISSION SHOULD AUTHORIZE A ROE FOR SCE&G BASED ON INVESTMENT GRADE UTILITIES. PLEASE RESPOND TO MS. LAPSON'S POSITION.

A. On page 8, lines 9 – 11, Ms. Lapson testified that "the equity return determined based upon the less risky proxy group should be supplemented to reflect the greater financial risk." I disagree with Ms. Lapson's position. I explained in my Direct Testimony that South Carolina ratepayers should be protected from any adverse credit conditions due to SCE&G's involvement in the abandoned V.C. Summer Units 2 and 3. This includes, of course, a higher required ROE that reflects the uncertainty regarding the ultimate disposition of NND cost recovery as well as cost disallowances due to imprudence.

It is important to keep in mind it was the actions of SCE&G's management that are responsible for the Company's current credit ratings, not the ORS recommendations in this case. Under the ORS recommendations, ratepayers will pay for the allowable NND costs with a full rate of return that is based on a ROE commensurate with an investment grade proxy group of utilities. If the disallowance of NND costs causes further deterioration in SCE&G's credit rating, South Carolina ratepayers should not have to foot the bill for a higher ROE on top of the allowable NND costs for a generation project that will never produce a single kilowatt of electricity. The ORS approach is a fair balancing of interests in this proceeding.

Q. PLEASE ADDRESS THE STATEMENT MADE BY MS. LAPSON ON PAGE 9, LINES 7 THROUGH 13 OF HER REBUTTAL TESTIMONY.

A. Ms. Lapson testified as follows:

"Mr. Baudino also asserts that the ORS Plan will create greater certainty which will cure the Company's credit problems."

I did testify that adoption of the ORS Plan would create greater certainty with respect to the treatment of SCE&G's NND costs, but I did not testify that it would <u>cure</u> the Company's credit problems. Ms. Lapson's testimony is incorrect. I did not evaluate the impact of the ORS Plan on the Company's credit ratings.

On lines 10 and 11 of page 8 of her rebuttal testimony, Ms. Lapson further stated that I "mischaracterized" credit rating reports. I strongly disagree. In fact, I quoted from reports by Standard & Poor's and Moody's that clearly discuss uncertainties regarding the treatment of abandoned NND costs on pages 15 and 16 of my Direct Testimony. These quotes speak for themselves.

Q. ON PAGE 11, LINES 3 THROUGH 4 OF HER REBUTTAL TESTIMONY MS. LAPSON CLAIMED THAT YOU MADE A "FAULTY AND MISLEADING COMPARISON" BETWEEN RECENTLY ISSUED BONDS BY SCE&G AND THE

AUGUST 2018 YIELD ON AVERAGE UTILITY BONDS. PLEASE ADDRESS MS. LAPSON'S TESTIMONY ON THIS POINT.

A. I disagree that my comparison was "faulty and misleading." However, I do agree with Ms. Lapson that the average utility bond yield from the Mergent Bond Record and SCE&G's shorter term 10-year issuance are not comparable given the difference in maturities. To provide the Commission more detailed information, I reviewed the September 2018 issue of the Mergent Bond Record regarding utility bond yields and their ratings. For August 2018, the Mergent Bond Record provided the following information:

- A-rated bond yield – 4.26%
- Baa-rated bond yield – 4.64%

Ms. Lapson's Table EL-1 shows that SCE&G's 4.25% coupon bond was rated Baa1, which is at the top of the Baa rating category. With a long-term Baa bond yield at 4.64% in August, one would expect a lower yield for a shorter-term 10-year Baa-rated bond as Ms. Lapson correctly pointed out in her Rebuttal Testimony. The other utility bonds shown in Table EL-1 are generally higher rated than SCE&G's bond, so again, one would expect a somewhat higher bond yield for SCE&G compared to those companies. I also would agree that it is likely that SCE&G's cost of new debt has been affected by the Company's unsuccessful involvement in the abandoned NND project as well as the uncertainty regarding cost recovery of that facility.

Q. BEGINNING ON PAGE 14, LINE 14 OF HER REBUTTAL TESTIMONY, MS. LAPSON CRITICIZES YOU FOR NOT PROVIDING EVIDENCE REGARDING SCE&G'S FINANCIAL FUTURE IF THE ORS OPTIMAL PLAN IS IMPLEMENTED. PLEASE RESPOND TO HER CRITICISM.

A. I was not retained to make that kind of assessment. My responsibility was to provide a cost of equity and a cost of debt to be applied to the return on the ORS recommended amount of allowable NND costs and to provide conditions regarding service quality and credit quality if the Commission approves Dominion's acquisition of SCE&G. Overall, the ORS Optimal Plan represents its recommendation to the Commission for proper ratemaking treatment of the costs of the abandoned Summer nuclear facility. I strongly recommend that the Commission reject any attempt by SCE&G to leverage its current financial condition, caused by management decisions, into a significantly higher ROE in this proceeding.

Q. ON PAGE 16, LINES 1 THROUGH 2 OF HER REBUTTAL TESTIMONY, MS. LAPSON TESTIFIED THAT IT IS NOT REASONABLE TO INCLUDE AN ADJUSTMENT TO SCE&G'S LONG-TERM DEBT COST TO INCLUDE THE TWO NEW AUGUST 2018 ISSUANCES. PLEASE ADDRESS MS. LAPSON'S POSITION.

A. Ms. Lapson testified that it is not appropriate to make such an adjustment to long-term debt costs "after the end of the test period." However, this proceeding is not a traditional base rate case. Rather, it is a proceeding that will determine, among other things, the level of allowable NND costs to be collected from South Carolina ratepayers. To that end, ORS is recommending a full rate of return on the allowable NND costs to be included in the proposed CCR rider. Part of my responsibility in this case is to recommend an appropriate cost of debt for that rate of return. For greater accuracy, the cost of debt should be reflective of known and measureable current debt issues for SCE&G and that should include the two new August 2018 debt issuances I referenced in my Direct Testimony.

Q. ON PAGE 16, BEGINNING ON LINE 19 MS. LAPSON REJECTED YOUR RECOMMENDED CREDIT QUALITY CONDITIONS. PLEASE ADDRESS MS. LAPSON'S POSITION ON YOUR CREDIT QUALITY CONDITIONS.

A. My recommended credit quality conditions are an essential part of the proposed business combination should the Commission decide to approve it. My credit quality conditions will protect South Carolina ratepayers if the cost of equity and debt increase because of the proposed combination. However, I acknowledge it is likely that the acquisition of SCE&G by a financially stronger company would likely improve the credit condition for SCE&G.

<u>RESPONSE TO SERVICE QUALITY REBUTTAL TESTIMONY</u>

Q. DOMINION WITNESS BLUE AND SCE&G WITNESS RAFTERY BOTH OPPOSE YOUR PROPOSED SERVICE QUALITY CONDITIONS IN THEIR REBUTTAL TESTIMONIES. PLEASE RESPOND TO THEIR POSITIONS REGARDING SERVICE QUALITY CONDITIONS.

A. Although neither Dominion nor SCE&G support the ORS recommendations related to service quality improvement and reporting, the merger should maintain and strive to improve service quality. My proposed service quality conditions hold the Company accountable for quantifiable standards and regular reporting to the Commission. As stated in my Direct Testimony, Dominion is already providing service quality reporting in its other jurisdictions, so there is no good reason for Dominion to oppose the conditions I propose in this case. I support specific merger conditions that contain attainable and measurable goals focused on maintaining and improving service for the customers in South Carolina.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

SCE&G PROXY GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
ALLETE	High Price ($)	72.800	77.450	79.860	78.620	80.780	79.420	77.330	78.600
	Low Price ($)	67.070	70.400	73.760	70.460	75.850	74.470	73.390	73.490
	Avg. Price ($)	69.935	73.925	76.810	74.540	78.315	76.945	75.360	76.045
	Dividend ($)	0.560	0.560	0.560	0.560	0.560	0.560	0.560	0.560
	Mo. Avg. Div.	3.20%	3.03%	2.92%	3.01%	2.86%	2.91%	2.97%	2.95%
	6 mos. Avg.	2.99%							
Alliant Energy	High Price ($)	41.040	43.270	43.470	42.780	43.950	43.840	44.180	44.700
	Low Price ($)	37.850	40.340	40.110	38.220	41.410	41.390	41.730	42.010
	Avg. Price ($)	39.445	41.805	41.790	40.500	42.680	42.615	42.955	43.355
	Dividend ($)	0.335	0.335	0.335	0.335	0.335	0.335	0.335	0.335
	Mo. Avg. Div.	3.40%	3.21%	3.21%	3.31%	3.14%	3.14%	3.12%	3.09%
	6 mos. Avg.	3.23%							
Ameren Corp.	High Price ($)	56.790	58.950	59.790	61.250	62.410	65.090	66.110	67.060
	Low Price ($)	53.080	55.010	55.720	55.210	59.150	60.780	62.060	62.700
	Avg. Price ($)	54.935	56.980	57.755	58.230	60.780	62.935	64.085	64.880
	Dividend ($)	0.458	0.458	0.458	0.458	0.458	0.458	0.458	0.458
	Mo. Avg. Div.	3.33%	3.21%	3.17%	3.14%	3.01%	2.91%	2.86%	2.82%
	6 mos. Avg.	3.13%							
American Electric Power	High Price ($)	69.240	70.980	69.990	70.300	71.890	72.910	73.740	73.890
	Low Price ($)	64.600	66.460	64.460	62.710	68.130	69.320	68.920	69.310
	Avg. Price ($)	66.920	68.720	67.225	66.505	70.010	71.115	71.330	71.600
	Dividend ($)	0.620	0.620	0.620	0.620	0.620	0.620	0.620	0.620
	Mo. Avg. Div.	3.71%	3.61%	3.69%	3.73%	3.54%	3.49%	3.48%	3.46%
	6 mos. Avg.	3.63%							
Avangrid, Inc.	High Price ($)	51.500	53.000	54.550	53.160	54.180	51.210	50.670	49.010
	Low Price ($)	47.540	49.585	51.310	49.600	48.750	49.000	46.960	45.810
	Avg. Price ($)	49.520	51.292	52.930	51.380	51.465	50.105	48.815	47.410
	Dividend ($)	0.432	0.432	0.432	0.432	0.432	0.432	0.440	0.440
	Mo. Avg. Div.	3.49%	3.37%	3.26%	3.36%	3.36%	3.45%	3.61%	3.71%
	6 mos. Avg.	3.38%							
Black Hills Corp.	High Price ($)	54.620	57.280	59.490	61.650	64.140	61.460	59.980	63.090
	Low Price ($)	50.490	52.630	55.530	55.070	59.010	58.620	56.420	57.070
	Avg. Price ($)	52.555	54.955	57.510	58.360	61.575	60.040	58.200	60.080
	Dividend ($)	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.475
	Mo. Avg. Div.	3.62%	3.46%	3.30%	3.26%	3.09%	3.16%	3.26%	3.16%
	6 mos. Avg.	3.31%							

SCE&G PROXY GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CMS Energy Corp.	High Price ($)	45.580	47.480	47.200	47.580	48.680	50.120	50.810	51.360
	Low Price ($)	41.980	43.790	43.720	42.520	46.250	47.180	47.700	48.130
	Avg. Price ($)	43.780	45.635	45.460	45.050	47.465	48.650	49.255	49.745
	Dividend ($)	0.358	0.358	0.358	0.358	0.358	0.358	0.358	0.358
	Mo. Avg. Div.	3.27%	3.13%	3.15%	3.17%	3.01%	2.94%	2.90%	2.87%
	6 mos. Avg.	3.11%							
DTE Energy Co.	High Price ($)	105.190	106.240	105.460	105.130	109.660	114.120	114.310	114.840
	Low Price ($)	99.520	101.820	99.000	94.250	101.880	106.270	106.410	107.390
	Avg. Price ($)	102.355	104.030	102.230	99.690	105.770	110.195	110.360	111.115
	Dividend ($)	0.883	0.883	0.883	0.883	0.883	0.883	0.883	0.883
	Mo. Avg. Div.	3.45%	3.39%	3.45%	3.54%	3.34%	3.20%	3.20%	3.18%
	6 mos. Avg.	3.40%							
Duke Energy Corp.	High Price ($)	77.910	80.850	80.410	80.150	81.750	82.720	83.770	83.420
	Low Price ($)	74.580	75.960	73.130	71.960	77.900	79.510	78.000	78.520
	Avg. Price ($)	76.245	78.405	76.770	76.055	79.825	81.115	80.885	80.970
	Dividend ($)	0.890	0.890	0.890	0.890	0.890	0.928	0.928	0.928
	Mo. Avg. Div.	4.67%	4.54%	4.64%	4.68%	4.46%	4.58%	4.59%	4.58%
	6 mos. Avg.	4.59%							
El Paso Electric Co.	High Price ($)	51.250	51.550	59.130	59.350	62.700	64.350	63.050	60.140
	Low Price ($)	48.050	48.500	49.450	54.750	58.250	60.950	56.880	55.950
	Avg. Price ($)	49.650	50.025	54.290	57.050	60.475	62.650	59.965	58.045
	Dividend ($)	0.335	0.335	0.335	0.360	0.360	0.360	0.360	0.360
	Mo. Avg. Div.	2.70%	2.68%	2.47%	2.52%	2.38%	2.30%	2.40%	2.48%
	6 mos. Avg.	2.51%							
Hawaiian Electric Ind.	High Price ($)	34.620	35.130	35.200	34.510	36.200	36.030	36.330	36.380
	Low Price ($)	32.580	33.790	32.880	32.590	34.140	34.160	34.780	34.880
	Avg. Price ($)	33.600	34.460	34.040	33.550	35.170	35.095	35.555	35.630
	Dividend ($)	0.310	0.310	0.310	0.310	0.310	0.310	0.310	0.310
	Mo. Avg. Div.	3.69%	3.60%	3.64%	3.70%	3.53%	3.53%	3.49%	3.48%
	6 mos. Avg.	3.61%							
IDACORP	High Price ($)	88.600	94.160	96.010	93.280	95.350	99.280	101.490	101.890
	Low Price ($)	80.290	84.820	87.340	85.230	90.920	92.030	96.810	94.790
	Avg. Price ($)	84.445	89.490	91.675	89.255	93.135	95.655	99.150	98.340
	Dividend ($)	0.590	0.590	0.590	0.590	0.590	0.590	0.590	0.590
	Mo. Avg. Div.	2.79%	2.64%	2.57%	2.64%	2.53%	2.47%	2.38%	2.40%
	6 mos. Avg.	2.61%							

SCE&G PROXY GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
NextEra Energy, Inc.	High Price ($)	164.410	165.150	166.620	169.530	171.500	175.650	174.810	175.660
	Low Price ($)	151.340	158.650	155.220	155.060	163.510	165.450	164.250	166.190
	Avg. Price ($)	157.875	161.900	160.920	162.295	167.505	170.550	169.530	170.925
	Dividend ($)	1.110	1.110	1.110	1.110	1.110	1.110	1.110	1.110
	Mo. Avg. Div.	2.81%	2.74%	2.76%	2.74%	2.65%	2.60%	2.62%	2.60%
	6 mos. Avg.	2.72%							
Northwestern Corp.	High Price ($)	54.190	55.750	55.800	57.740	59.920	62.160	60.970	62.190
	Low Price ($)	50.460	52.430	52.770	51.530	55.980	58.030	56.930	58.060
	Avg. Price ($)	52.325	54.090	54.285	54.635	57.950	60.095	58.950	60.125
	Dividend ($)	0.550	0.550	0.550	0.550	0.550	0.550	0.550	0.550
	Mo. Avg. Div.	4.20%	4.07%	4.05%	4.03%	3.80%	3.66%	3.73%	3.66%
	6 mos. Avg.	3.97%							
OGE Energy Corp.	High Price ($)	32.830	33.390	35.420	35.540	36.590	37.690	37.740	38.130
	Low Price ($)	30.760	31.490	32.700	33.190	34.130	35.580	35.290	35.910
	Avg. Price ($)	31.795	32.440	34.060	34.365	35.360	36.635	36.515	37.020
	Dividend ($)	0.333	0.333	0.333	0.333	0.333	0.333	0.333	0.365
	Mo. Avg. Div.	4.18%	4.10%	3.90%	3.87%	3.76%	3.63%	3.64%	3.94%
	6 mos. Avg.	3.91%							
Otter Tail Corp.	High Price ($)	44.550	44.850	48.350	48.750	49.750	49.750	49.350	48.740
	Low Price ($)	39.650	42.300	42.550	44.800	47.000	47.350	46.850	44.820
	Avg. Price ($)	42.100	43.575	45.450	46.775	48.375	48.550	48.100	46.780
	Dividend ($)	0.335	0.335	0.335	0.335	0.335	0.335	0.335	0.335
	Mo. Avg. Div.	3.18%	3.08%	2.95%	2.86%	2.77%	2.76%	2.79%	2.86%
	6 mos. Avg.	2.93%							
Pinnacle West Capital	High Price ($)	80.210	81.850	80.730	81.250	83.050	82.830	81.120	85.680
	Low Price ($)	75.210	77.140	75.820	73.410	77.560	78.270	77.190	78.110
	Avg. Price ($)	77.710	79.495	78.275	77.330	80.305	80.550	79.155	81.895
	Dividend ($)	0.695	0.695	0.695	0.695	0.695	0.695	0.695	0.695
	Mo. Avg. Div.	3.58%	3.50%	3.55%	3.59%	3.46%	3.45%	3.51%	3.39%
	6 mos. Avg.	3.52%							
PNM Resources	High Price ($)	38.700	40.730	40.600	40.050	39.900	40.950	40.750	40.590
	Low Price ($)	34.950	37.100	37.600	34.950	37.170	38.250	38.150	37.900
	Avg. Price ($)	36.825	38.915	39.100	37.500	38.535	39.600	39.450	39.245
	Dividend ($)	0.265	0.265	0.265	0.265	0.265	0.265	0.265	0.265
	Mo. Avg. Div.	2.88%	2.72%	2.71%	2.83%	2.75%	2.68%	2.69%	2.70%
	6 mos. Avg.	2.76%							

SCE&G PROXY GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Portland General Electric	High Price ($)	41.060	42.700	42.930	43.290	46.000	47.560	47.540	47.530
	Low Price ($)	39.020	39.180	39.660	39.600	42.100	44.380	44.440	44.670
	Avg. Price ($)	40.040	40.940	41.295	41.445	44.050	45.970	45.990	46.100
	Dividend ($)	0.340	0.340	0.340	0.363	0.363	0.363	0.363	0.363
	Mo. Avg. Div.	3.40%	3.32%	3.29%	3.50%	3.29%	3.15%	3.15%	3.15%
	6 mos. Avg.	3.33%							
Southern Company	High Price ($)	45.100	46.750	46.580	46.850	48.650	49.430	45.980	45.580
	Low Price ($)	43.020	43.750	42.420	42.730	46.020	43.630	42.570	42.510
	Avg. Price ($)	44.060	45.250	44.500	44.790	47.335	46.530	44.275	44.045
	Dividend ($)	0.580	0.580	0.600	0.600	0.600	0.600	0.600	0.600
	Mo. Avg. Div.	5.27%	5.13%	5.39%	5.36%	5.07%	5.16%	5.42%	5.45%
	6 mos. Avg.	5.23%							
WEC Energy Group	High Price ($)	63.130	64.840	64.930	64.980	66.500	68.480	69.520	70.870
	Low Price ($)	58.920	61.390	59.960	58.480	63.190	64.920	64.960	66.160
	Avg. Price ($)	61.025	63.115	62.445	61.730	64.845	66.700	67.240	68.515
	Dividend ($)	0.553	0.553	0.553	0.553	0.553	0.553	0.553	0.553
	Mo. Avg. Div.	3.62%	3.50%	3.54%	3.58%	3.41%	3.31%	3.29%	3.23%
	6 mos. Avg.	3.49%							
Xcel Energy	High Price ($)	45.870	47.380	46.930	46.240	47.150	48.720	49.490	49.740
	Low Price ($)	42.570	43.930	43.280	41.990	44.540	45.870	46.010	46.520
	Avg. Price ($)	44.220	45.655	45.105	44.115	45.845	47.295	47.750	48.130
	Dividend ($)	0.380	0.380	0.380	0.380	0.380	0.380	0.380	0.380
	Mo. Avg. Div.	3.44%	3.33%	3.37%	3.45%	3.32%	3.21%	3.18%	3.16%
	6 mos. Avg.	3.35%							
Monthly Avg. Dividend Yield		3.54%	3.42%	3.41%	3.45%	3.30%	3.26%	3.29%	3.29%

Source: Yahoo! Finance